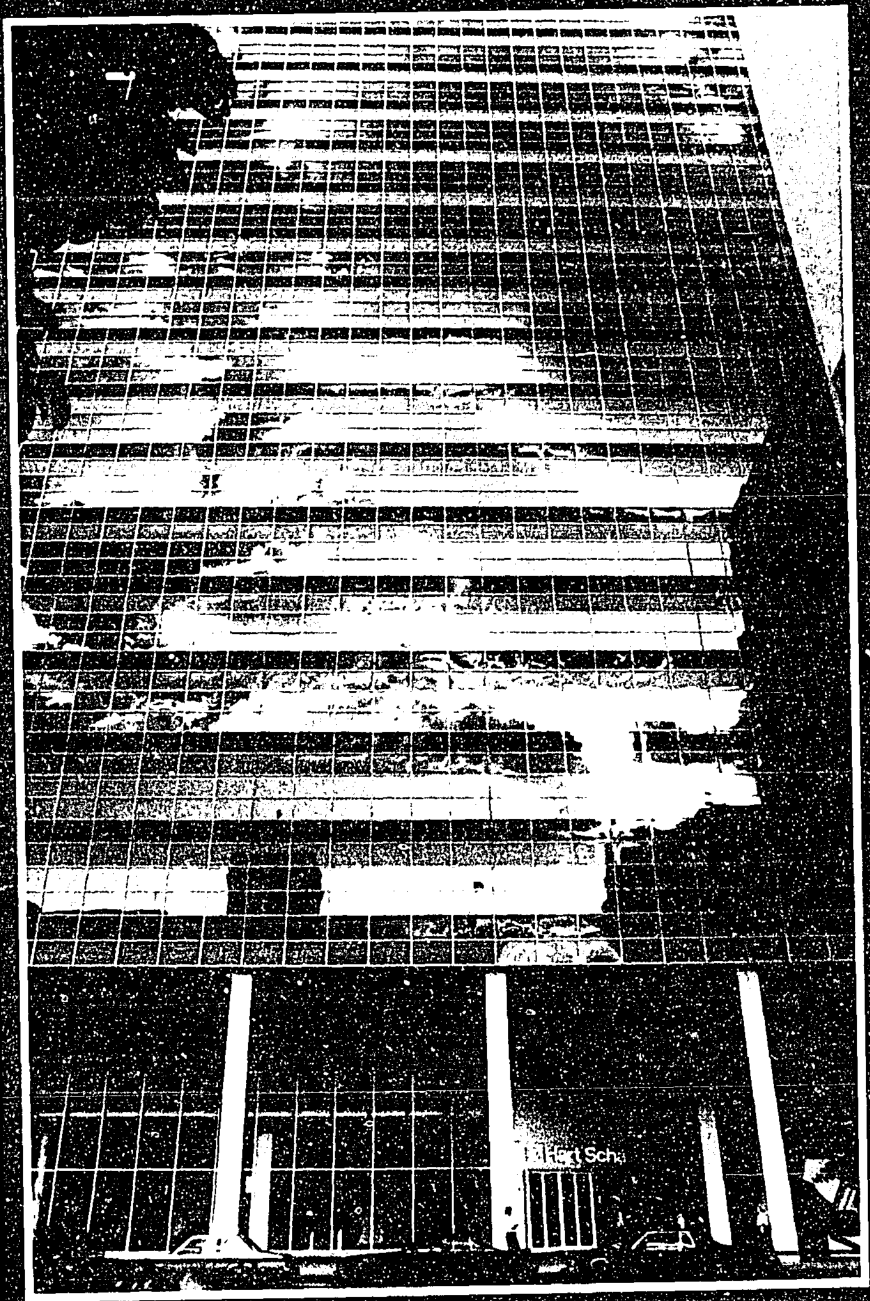
Hart Schaffner & Marx

America's leading maker and retailer of quality apparel.

1981 Annual Report

An Era of Growth



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Hart Schaffner & Marx
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Chicago, Illinois 60606
(312) 372-6300

Transfer Agent and Registrar
The First National Bank of Chicago
Chicago, Illinois 60670

Form 10-K
Hart Schaffner & Marx will provide to any shareholder, without charge, a copy of its Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (but without exhibits). Requests should be in writing to: Hart Schaffner & Marx, attention: Mrs. Kay C. Nalbach, Assistant Secretary, 101 North Wacker Drive, Chicago, Illinois 60606

On the cover:
During 1981, the Company moved to the dramatic, twenty-three story, glass and steel highrise on Wacker Drive in Chicago. The new building carries the Hart Schaffner & Marx name and will serve, with long-term lease and expansion options, as our headquarters for An Era of Growth. The Corporate offices, the Retail Stores Group, the Men's Apparel Group and the Clothes Division occupy six floors.

Years ended November 30	Increase	1981	1980	
Operating Results	+ 21%	**$815,560,000**	$674,888,000	**Net Sales**
	+ 22%	**27,410,000**	22,525,000	**Net Earnings**
Shareholder Financial Data	+ 20%	**3.16**	2.63	**Earnings per share**
	+ 12%	**1.09**	.97	**Cash dividends per common share**
	+ 8%	**245,465,000**	226,812,000	**Shareholders' equity**
	+ 7%	**28.34**	26.50	**Equity per share**
		8,670,000	8,561,000	**Average number of common shares and common share equivalents**
		9,200	9,150	**Number of shareholders**

To Our Shareholders:

Hart Schaffner & Marx achieved record sales and earnings in 1981 for the fourth consecutive year. Sales climbed to $816 million, 20.8 percent more than 1980's $675 million, while earnings increased 21.7 percent to $27.4 million or $3.16 per share from $22.5 million or $2.63 per share. During the continuous six-year Era of Growth since 1975, a year of recession, sales grew 68 percent, earnings increased 230 percent, shareholders' equity climbed 43 percent and dividends advanced 87 percent to the present rate of $1.12 annually.

Your Company is a major factor in both manufacturing and retailing in the men's medium-to-better apparel markets. It is the leading manufacturer of fine quality men's tailored clothing in the U.S., with such prominent, well-recognized brands as Hart Schaffner & Marx, Hickey-Freeman, Walter-Morton, Chester Barrie, Society Brand, Austin Reed of Regent Street, Graham & Gunn, Jaymar-Ruby, Gleneagles, Jack Nicklaus and Johnny Carson, and such famous designer names as Christian Dior, Pierre Cardin, Nino Cerruti, and Cesarani. Each brand has a defined market target and is styled and priced to appeal to that segment. Retail prices range from $135 to over $500 for our suits and from $90 to over $350 for our sport coats, thus serving a broad portion of the estimated $8 billion retail market for men's tailored clothing.

In January 1981, the Company acquired 80 percent of Country Miss, a manufacturer of medium-to-better priced women's sportswear. The three top executives of Country Miss own the remaining 20 percent. Its sales were $58 million in the eleven months after it became a subsidiary, compared to $41 million in its 1980 fiscal year. Country Miss, one of the more profitable women's apparel businesses in the U.S., has projected 1984 sales of about $100 million.

We appreciate and are proud of our strong relationship with the thousands of independent specialty and department stores selling our goods. In addition, the Company operates 310 apparel stores in 66 major metropolitan areas and in a number of smaller cities in the U.S. Our 246 menswear stores, of which 145 have women's sections, and 38 women's stores are the major specialty store retailers of medium-to-better priced apparel in most of these markets. Country Miss also operates 26 outlet stores for women. In 1981, our manufacturing divisions shipped over $75 million of goods to these 310 stores, which we look upon as important customers and sources of fashion information. The relationships and interchanges between our manufacturing divisions and our stores strengthen each of them and make their executives better merchants. These stores also serve as models for other retailers and as showcases for our products, further enhancing the Company's image. In 1981, 27 stores were opened, mostly during the Fall season, and 14 more are planned for 1982.

Your Company's primary objective since 1975, when the return on equity was only 5 percent, has been to improve the return on its investment. Return on equity has improved every year since then, and increased from 10.3 percent in 1980 to 11.6 percent in 1981, the best in over a decade. The Company's goal is to achieve a 15 percent return by 1985. Our second goal is a 5 percent annual sales increase over and above the inflation rate. This was surpassed in 1981 when the inflation rate for apparel was approximately 5 percent and sales increased 12.4 percent, excluding Country Miss.

In December and January, the first two months of fiscal 1982, sales in the Company's stores increased 6 percent, without excessive price reductions and despite severe January weather. The current recession is adversely affecting retail business and there is uncertainty

Jerome S. Gore, Chairman and Chief Executive Officer

as to whether there will be an extended downturn which would cause retailers to lower their planned orders. However, there are favorable factors which should enhance our 1982 performance.

The Company's prestigious branded products continue to perform well for retailers and place it, with the rising consumer demand for quality and value, in an exceptionally strong position. Retailers are buying from fewer but more important and reliable resources like Hart Schaffner & Marx. This resource intensification helps explain the Spring 1982 increase in unit orders received by our men's manufacturing divisions, which are more than 10 percent ahead of last year. In addition, the more affluent customer who purchases our products is generally less affected by the recession and unemployment. This market is enlarging, particularly in the 35-55 age range, which will increase 28 percent during this decade compared to only 4 percent during the 1970's.

Other favorable factors include a substantial increase in advance orders for Country Miss. We have further improved our control of inventories and expenses. Sales of uniforms and career apparel are growing significantly under the Fashionaire and Thorngate labels. Hart Schaffner & Marx has a 49 percent interest in Robert's, a quality Mexico City manufacturer of men's clothing which operates 20 men's stores throughout Mexico. Robert's has shown excellent growth over the last five years, and our share of its 1981 net earnings was over $2 million. The Company's international licensing program is expanding and gaining prominence for its manufactured brands and retail names in many new markets. Foreign and U.S. licensing income was approximately $2 million in 1981 and will be augmented by several new programs recently initiated.

We are continuing to strengthen marketing programs throughout the Company to become even more competitive and to enter new markets. At the same time, we have expanded our manufacturing capacity. In 1981, a men's suit factory was purchased in Winchester, Kentucky, and a new facility was built near Chicago to process and cut fabrics. New technology continues to be introduced to improve quality and productivity.

Fiscal 1981 was a year of dramatic internal growth. Capital investments for plants and new equipment, opening and remodeling stores and the new headquarters totaled $32 million, more than double 1980. Your Company's financial position is very strong, and we have the financial capability both to expand and to make additional acquisitions, a key element in our strategic planning. Major acquisition criteria are that the company have a proven record of earnings growth, assured continuity of management and be in an industry in which our expertise in merchandising and/or retailing is advantageous. Any acquisitions must also improve return on equity.

Hart Schaffner & Marx has excellent depth of seasoned management, well balanced in both retailing and manufacturing. A management development program, the new brand manager structure in manufacturing and regionalized management in retailing provide the Company with a fine group of well-trained younger executives who are assuming positions of increasing importance. This is a major strength of your Company. An important change was made in December with the appointment of E.O. Hand as Men's Apparel Group president. Mr. Hand, formerly president of Hart Schaffner & Marx Clothes, our largest and most profitable men's manufacturing division, is now working with all the men's manufacturing divisions to help achieve the strategic objectives of the Company.

I am saddened by the death in January of one of our senior directors, Elmer Schlesinger. He was a grandson of Joseph Schaffner, one of the founders of the Company, and had been a director since 1963. Mr. Schlesinger's warm friendship and wise counsel will be missed by his fellow directors.

Two new members were elected to the Board of Directors in October 1981. They are Raymond F. Farley, president and chief operating officer of S.C. Johnson & Son, Inc. (Johnson's Wax), and Sam F. Segnar, president and chief executive officer of InterNorth, Inc. We are very pleased to welcome these executives of high caliber and experience to the Board.

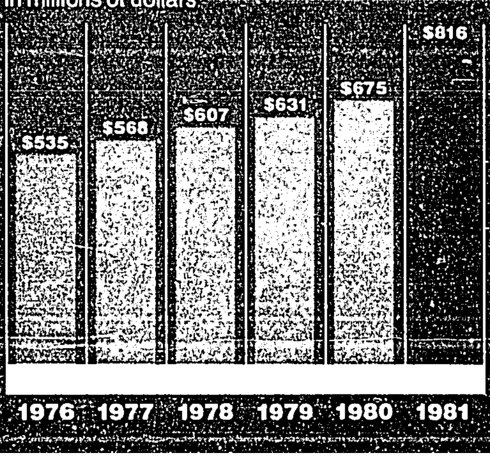
I want to express my appreciation to my associates, Richard P. Hamilton, president and chief operating officer, and John R. Meinert, vice chairman and chief financial and administrative officer, for their valuable contributions to the management of the Company and its accomplishments during 1981. They and the other members of our Board join me in thanking our 21,500 employees whose loyalty and efforts have enabled Hart Schaffner & Marx to grow and prosper.

Jerome S. Gore

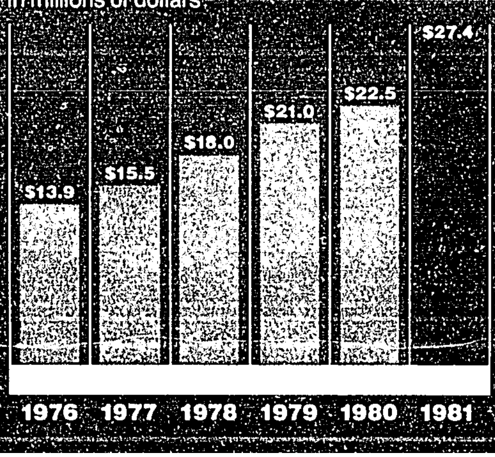
Jerome S. Gore
Chairman and Chief Executive Officer

February 22, 1982

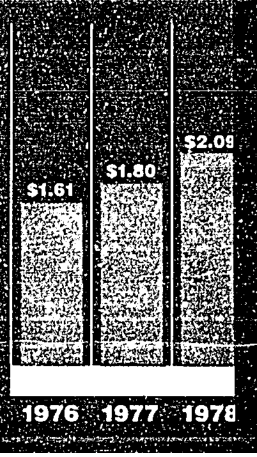
Net Sales
in millions of dollars



Net Earnings
in millions of dollars



Earnings Per Share



Manufacturing, retailing and consolidated operations have achieved four consecutive years of record sales and earnings. "Operating Segment Information" is summarized on page 20; Country Miss is in only the 1981 figures. If it had been included in 1980, our sales increase would have been $100 million or 14% for 1981 and net earnings would have increased $3.9 million or 16.6% to $3.16 per share from $2.75 in 1980 (which was $2.63 per share without Country Miss). Manufacturing sales to independents included $45 million in 1981 from Country Miss, while the Men's Apparel Group increased 21% to $329 million from $271 million in 1980, resulting in a substantial increase in earnings.

Manufacturing earnings before taxes increased $15.4 million in 1981, compared to a $2.6 million increase in 1980. Higher sales and improved operating margins made a substantial contribution to the 1981 profits; the 1980 improvement was due to a 14% sales increase as margins were constant.

Retail sales increased 9.4% or $38 million, one-third from Country Miss outlet stores. Earnings from retailing also increased, but the pre-tax profit margin on sales slipped as costs of opening 27 new stores and inflationary pressures caused operating expenses to rise at a faster rate than sales.

Consolidated gross profit was 38% in 1981, 38.9% in 1980 and 38.4% in 1979. Operating expenses were 32.4% in 1981, 33.6% in 1980 and 33.1% in 1979. The 1981 decline in both percentages reflects the larger proportion of manufacturing, which has lower percentages of gross profit and expense than retailing. It is significant that the 1981 gross profit percentage is 5.6% higher than the expense percentage, as production efficiencies improved margins, compared to a 5.3% difference in 1980 and 1979.

The Consolidated Statement of Earnings on page 14 shows an increase in "Finance charges and other income" to $10 million from $7.9 million in 1980; 1979 was $8.6 million, which included some systems development income. The 1981 gain was attributable to more finance charges on retail receivables, higher licensing income and discounts on purchasing $1.7 million of our sinking fund debentures.

Borrowings were higher in 1981 to finance expansion and the addition of Country Miss; interest expense, net of interest income, was $7.5 million in 1981, $2.5 million in 1980 and $2.6 million in 1979. The $5 million increase was more than offset by improved operating profits. Our equity in Robert's earnings, net of tax, was $2,038,000 for 1981 compared to $1,252,000 in 1980, and combined with higher investment tax credits, resulted in a lower effective tax rate. Thus, net earnings increased $4.9 million to $27.4 million or 3.4% of sales in 1981 from $22.5 million or 3.3% in 1980; 1979 was also 3.3% of sales.

Effects of inflation on the Company's operations and assets are discussed on page 22. The current value of net assets is estimated at $325 million compared to $245 million book value. Depreciation and amortization, which increased to $11.9 million in 1981 from $9.7 million in 1980 and $9.1 million in 1979 due to adding plants, stores and Country Miss, would have been $20.8 million for 1981 after adjustment for inflation. This higher expense would cause an equal drop in assumed earnings when taxes are not reduced accordingly.

In addition to $11.9 million depreciation and amortization, retained earnings grew $18 million in 1981, and this cash flow plus $12 million from tax-exempt industrial revenue bonds financed capital investments of $32 million and $4 million for the fixed assets of Country Miss. During 1981, notes payable increased $11 million and a cash advance was received for the old headquarters property—its sale this month will add, net of all expenses connected with our relocation, about 20 cents per share to first-quarter 1982 earnings. Capital investments in 1982 are expected to be about $15 million.

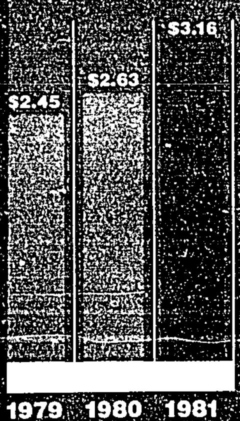
Receivables increased $26 million and inventories increased $19 million at November 30, 1981 compared to a year ago. The 21% increase in receivables is in proportion to the sales increase. The increase in inventories is only 10%; Country Miss accounted for over half of the increase and turnover improved.

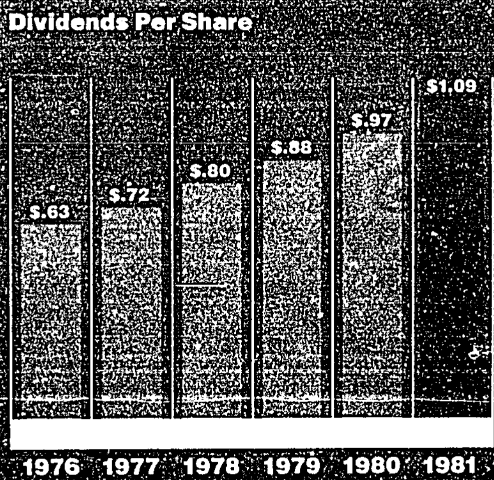
Notes payable were reduced to $10 million at January 31, 1982 from $35 million at November 30, 1981. Long term debt is $62 million or only 20% of total capitalization. We expect to sign a long-term bank credit agreement under which borrowings would fluctuate as needed during the first three years of its seven-year term. The Company's excellent cash flow and low debt place it in a favorable position to continue its internal expansion and to make acquisitions.

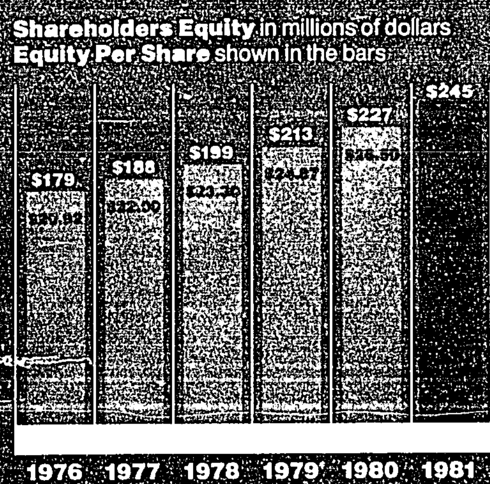
John R. Meinert
Vice Chairman

Richard P. Hamilton
President

February 22, 1982







The Manufacturing Divisions offer a broad range of high quality apparel in distinctive styles featuring fine fabrics and enhanced by superior craftsmanship. Our leadership brands cover a wide price range and are designed for a variety of life styles.

Advanced Fashion

Look of Elegance

Fashionable rainwear

The Natural Look

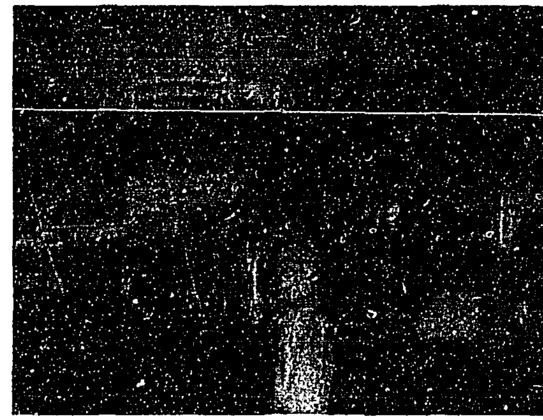
Year after year, market surveys substantiate the fact that Hart Schaffner & Marx is the world's best-known name in men's tailored clothing. In recent decades, through internal expansion and acquisitions, the name has been joined with other distinguished brands covering a broad spectrum addressing many different fashion viewpoints and price categories.

Young executive styling

Company labels range from the top-of-the-line Hickey-Freeman, Walter-Morton and Chester Barrie, with suits retailing for $400 to about $600, to Robert Surrey and Whiteville, with suits retailing from $135 to $165. Hart Schaffner & Marx and other brands fall between these price points.

The Hart Schaffner & Marx family of brands also has a preeminent position in designer names including some of the most important in international fashion: Christian Dior, Pierre Cardin, Nino Cerruti and Cesarani. Three of these designers offer labels serving two different customer groups and price levels: for the more mature fashion customer, Christian Dior Grand Luxe, Pierre Cardin Couture and, new in 1981, the Nino Cerruti Ligne Couture Collection; and for the younger

Look-to-the-future fashion



Cosmopolitan fashions

fashion customer at more moderate prices, Christian Dior Monsieur, Pierre Cardin Boutique, and the well-established Nino Cerruti Rue Royale line.

Two famous personalities bring the prestige of their names to our brands. The Jack Nicklaus line, which also carries the Hart Schaffner & Marx label, continues to expand. The Jack Nicklaus Golden Bear Collection of casual clothing at more moderate prices was introduced this past year as was the Jack Nicklaus Muirfield Collection at the higher end. Johnny Carson Apparel, a collection of suits and sport coats tailored by the M. Wile division, was repositioned to popular price points, resulting in a dramatic sales increase.

Society Brand, Ltd. sales are experiencing growth in its forward-fashion field, as are

Casual outerwear

the sales of Graham & Gunn, Ltd. and Allyn St. George in more traditional clothing. Austin Reed of Regent Street, already a legend in the industry, added to its growth by introducing in 1981 a women's wear collection complementing its line of British-influenced models and fabrics in American-made men's clothing. In 1981, a factory was purchased in Kentucky to meet the higher production needs for Austin Reed.

The Jaymar-Ruby division markets its apparel with a distinctive group of labels including the best-selling Sansabelt slacks, JaySport separates, the Cesarani collection of tailored clothing and sportswear and Ruby Ltd. coats. For Fall 1982, Jaymar-Ruby will produce and sell Pierre Cardin Couture and Boutique slacks.

Hart Schaffner & Marx for nearly a century, since 1887, has been providing American men with branded apparel. The acquisition of Country Miss in 1981 marked a major move into women's apparel manufacturing. The manufacturing divisions now employ 12,000 people in 30 plants.

Quality-tailored women's wear

Gleneagles, another famous label, manufactures rainwear for men and women and men's fashion outerwear, jeans and casual slacks featured in better stores throughout the country. The Gleneagles division sells products under the Gleneagles, Hart Schaffner & Marx, Christian Dior and Jack Nicklaus labels. For 1982, it will offer a collection of Nino Cerruti Couture and Rue Royale rainwear.

The critical final inspection

The Company's manufacturing divisions are noted for the ability to create new labels to penetrate targeted market areas, thus enhancing sales and profitability. In the past three years, a number of such collections have been introduced, appealing to diverse consumers and filling special marketing needs for many specialty and department stores throughout the United States. Two recent

Career apparel

labels were Cesarani traditional clothing and sportswear for men, and Chester Barrie clothes for men and women, a name long famous in Britain for fine fabrics and style.

The organization of the Men's Apparel Group early in 1981 provided the mechanism for better monitoring and control of our manufacturing. It will coordinate and integrate efforts among the divisions and make certain

The Designer Look in women's suits

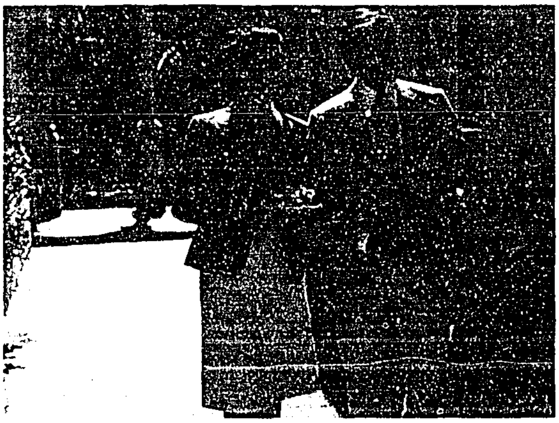
Traditional–updated

that the strategic Company objectives are carried out.

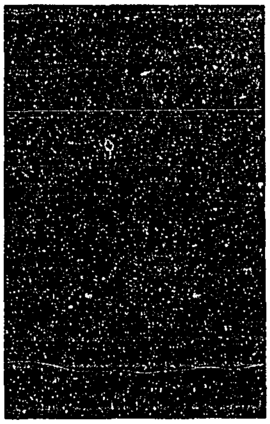
Thousands of the better specialty and department stores throughout the country sell our famous brands. We support these fine stores with a variety of essential services which strengthen the relationships. Our long-established promotional efforts create continuing loyalty. An effective national advertising program has been built on a solid foundation of successful merchandising and market research. The recognition of our brands and strong leadership position among key retailers is enhanced by an array of dealer aids. Our effort to provide the best and most innovative support to our customers spans the range from local advertising concepts, Special Order Services, Sales Training, Direct Mail Tips, In-Stock programs, to ideas for Display and Sales Promotion.

The acquisition of Country Miss in 1981 marked a major move by the Company into women's apparel manufacturing. Country Miss apparel is targeted for key segments of the important, fast-growing market for coordinated sportswear and sport dresses for the moderate and better updated customer.

Weekender wear

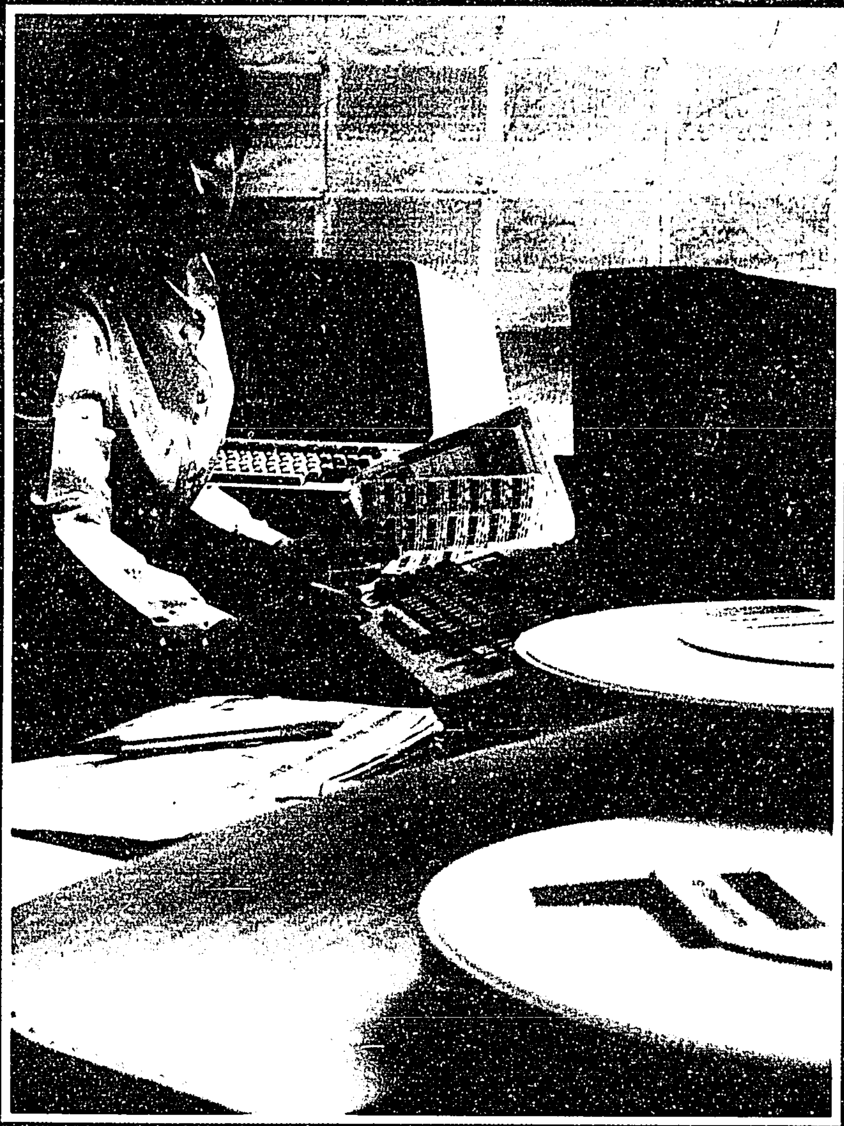


Resort wear for men and women

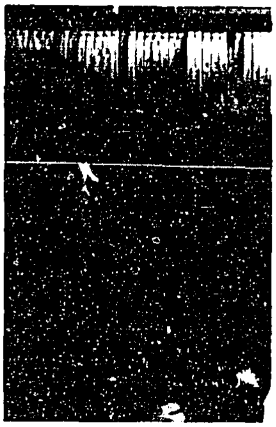


Town and country

New facilities and equipment have been designed to support sales growth. High-technology, state-of-the-art equipment is increasing productivity of both personnel and space while improving efficiency and assuring quality. For example, the price of Johnny Carson apparel was reduced while its quality standards were maintained in an engineered factory.

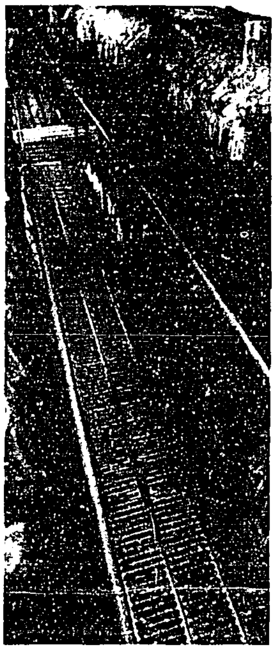


Computer System



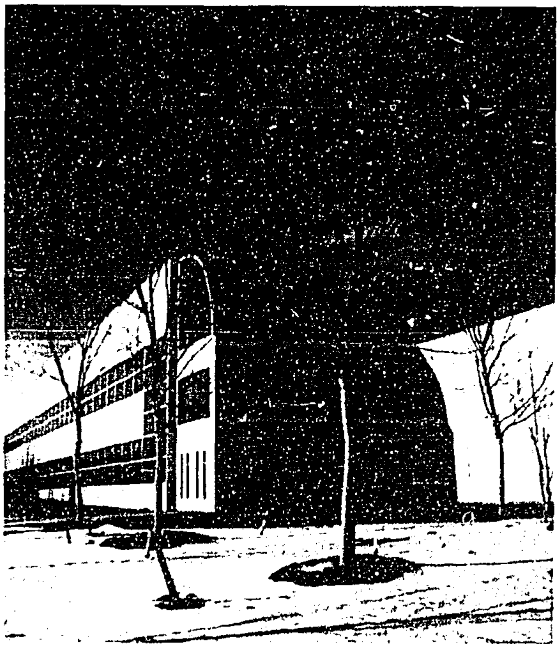
Pattern & Marker Making

Research and Development



Country Miss Warehouse

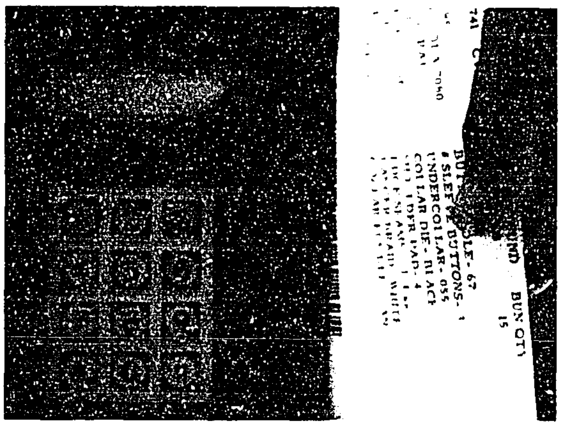
Customer service is being improved through the latest information technology: on-line, distributed databases, voice/data/facsimile communication networks and sophisticated market research techniques. Developed internally, low-cost POMDAS (Point of Manufacturing Data Acquisition System) terminals at factory workplaces will provide accurate control of production, such as shop



New Clothes Division Plant, Des Plaines, Illinois

balances, product costs, status of work, operator performance and payroll information. Specially-programmed, portable terminals allow salesmen to enter orders, messages and up-to-date customer information from the field, thereby reducing lead times in processing orders.

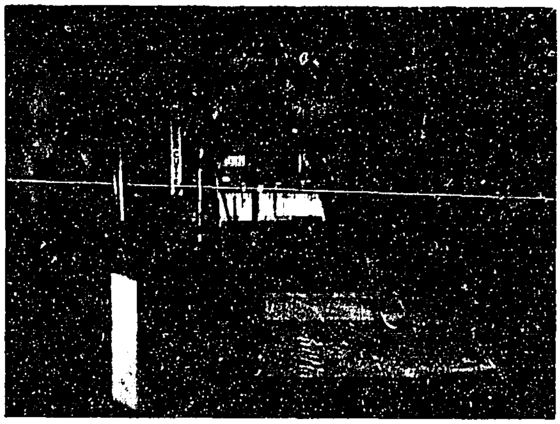
Computer-aided design has improved productivity since 1975 in pattern grading and



Pomdas *Terminal*

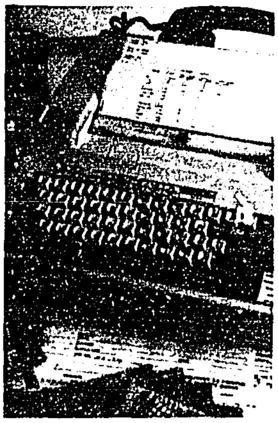
marker preparation. Pattern changes are now done quickly, and pattern placement through graphic display terminals dramatically reduces fabric losses. Accuracy and speed in cutting is available with automated cutting systems that improve both manufacturing quality and sewing efficiency.

The Company's manufacturing divisions rely on accurate, timely information to serve



Computerized Fabric Cutting

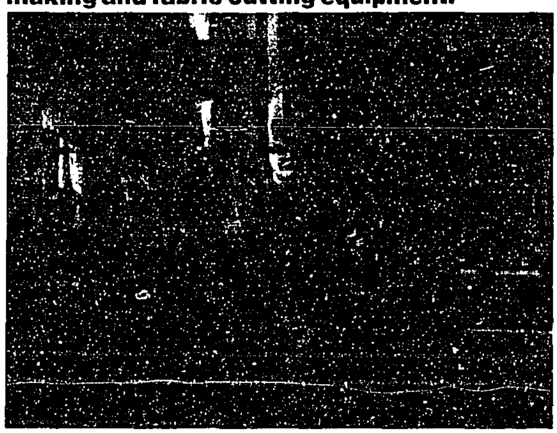
customers efficiently. Minicomputers will play an increasing role in monitoring labor performance, analyzing production costs and improving factory efficiency, so that central production managers can coordinate the entire manufacturing process. Large computers, with access to large volumes of data-based information, supply the interrelated needs of merchandising, marketing, manufacturing



Salesman's Computer

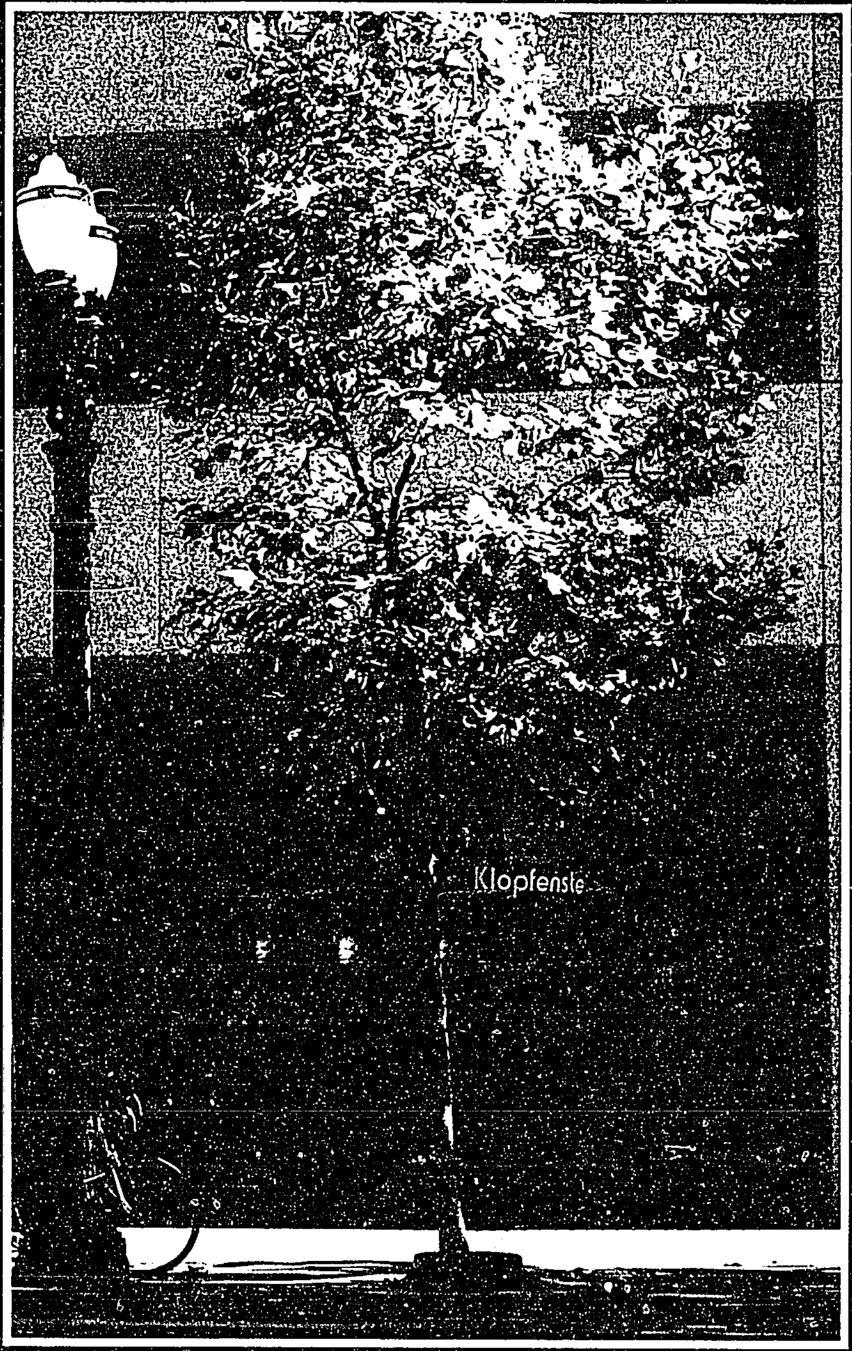
and finance.

In November 1981, a new facility was opened near Chicago, adjacent to our Des Plaines distribution center for the Hart Schaffner & Marx Clothes Division. This 170,000 square-foot plant for the processing and warehousing of fabrics contains advanced computerized pattern grading, marker making and fabric cutting equipment.



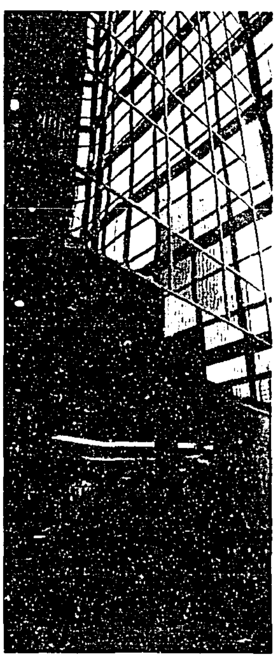
Automated Pressing

The Retail Stores Group achieved its fourth consecutive year of record sales and earnings in 1981. Our 310 stores include 284 men's and women's stores, considered the dominant quality specialty stores in most markets they serve, and 26 Country Miss women's "no-frills" stores.



Dramatic downtown location

Entrance makes elegant first impression



Office building exposure

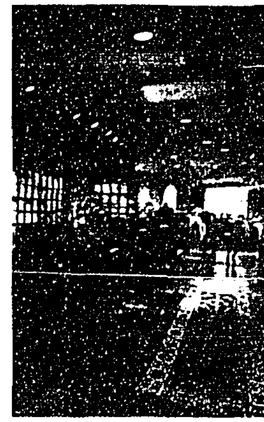
Our retail store sales, including $13 million from the outlet stores operated by Country Miss, acquired in January 1981, increased by 9.4% to $442 million in 1981 from $404 million in 1980.

Our 246 men's stores have a leadership position in suits, sport coats, overcoats, slacks and rainwear. In addition, development of men's casual sportswear is receiving substantial emphasis along with women's apparel, and 145 of the men's stores have women's departments. Women's apparel sales in these departments, our 38 women's specialty stores and the 26 Country Miss stores now exceed $140 million annually, including leased departments, and accounted for 30% of 1981 sales. Country Miss plans to expand in 1982 to 30 stores, providing exceptional value to customers in a "no-frills" environment.

Inviting open-store design

A major thrust in the Retail Group in 1981 was to continue to expand the Retail Stores Group share of the market in the sunbelt area and selected cities in other parts of the country which provide unusual sales potential. A total of 27 stores were opened—14 of these were in new shopping centers, 6 in high traffic existing centers. Houston, Dallas, Los Angeles, San Francisco, and Seattle were among the cities where new store units were opened. Capper & Capper and Chas. A. Stevens, both Chicago-based store groups, opened stores in the prestigious Oakbrook, Illinois center, and Wallachs and Root's, East Coast stores, opened stores in the quality-oriented Short Hills, New Jersey shopping mall.

Expansion in the Southeast



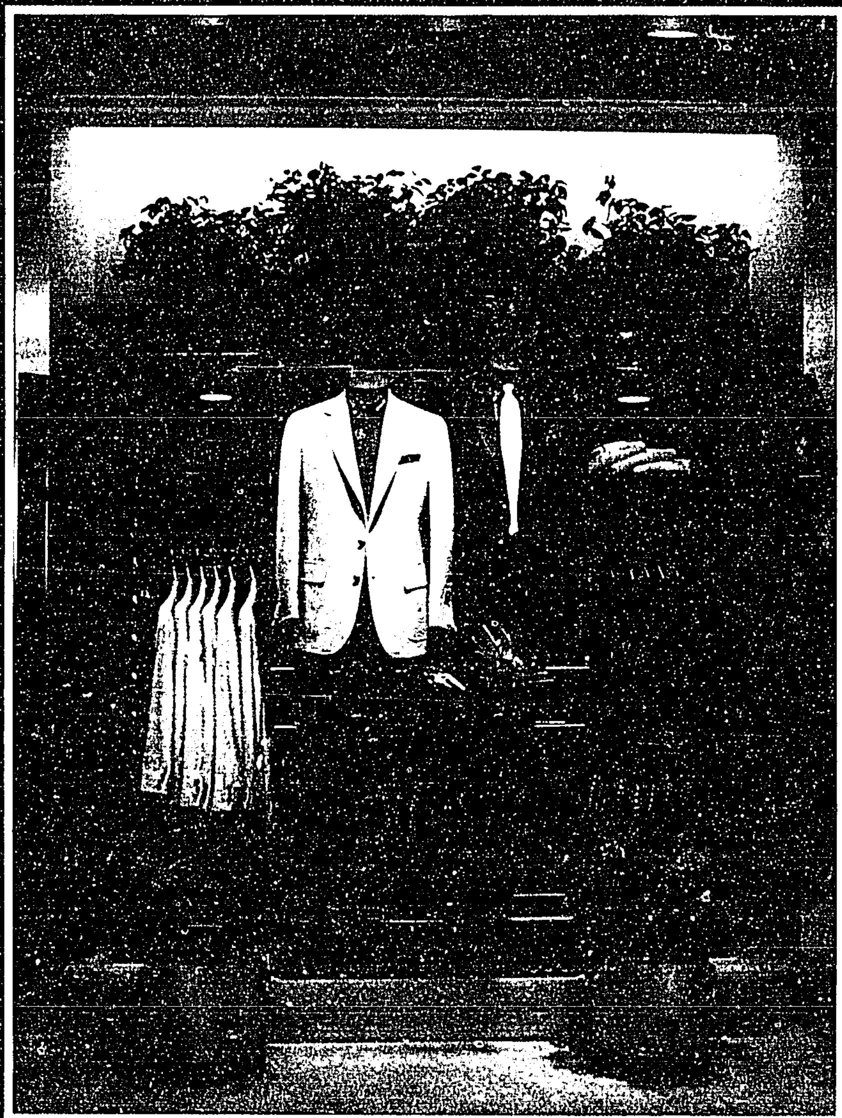
A contemporary classic

Continuing our program of evaluating the potential of older stores, 11 stores were closed during 1981 and space was reduced in several to improve productivity.

The regionalization of our store groups, begun in 1980, was further strengthened with the realignment into 5 regions. Regional vice presidents, responsible for the sales and profits of their several store groups, work closely with headquarters management in such areas as merchandising, advertising, leasing, accounting controls and personnel. All but two of the regional vice presidents are also chief executive officers of the largest operation in their region, thus enabling them to allocate the necessary talent and resources of their operations to meet the needs of all their regional store units.

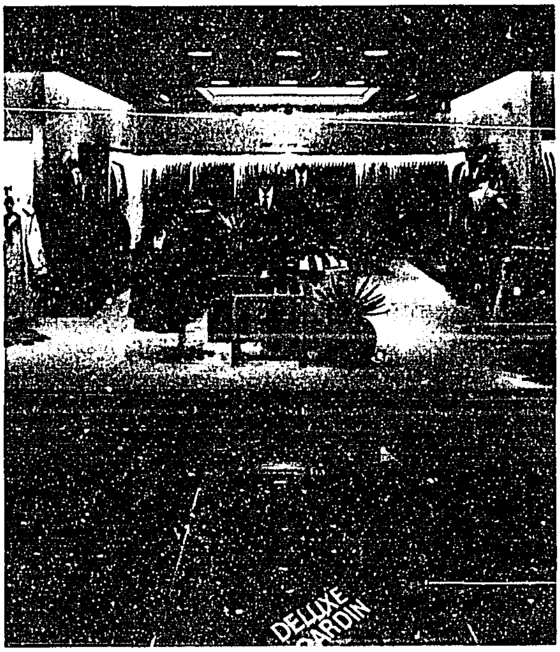
Outlet store strategy

Emphasis is being placed on developing the market focus for each retail store group so it best serves today's sophisticated customer who demands top quality, excellent service and the ambiance of fine specialty stores. Market research is an essential tool in directing our merchandising and selling efforts.



Showcasing merchandise concepts

The division has continued its merger program and more are planned for 1982. Zachry's in Atlanta completely consolidated all merchandising, buying, administrative, accounting and data processing functions for our retail stores in Montgomery, Alabama; Norfolk, Virginia; North Carolina and South Carolina and will be responsible for operating all 26 stores in this group. In a simi-



Fashion, quality and selection

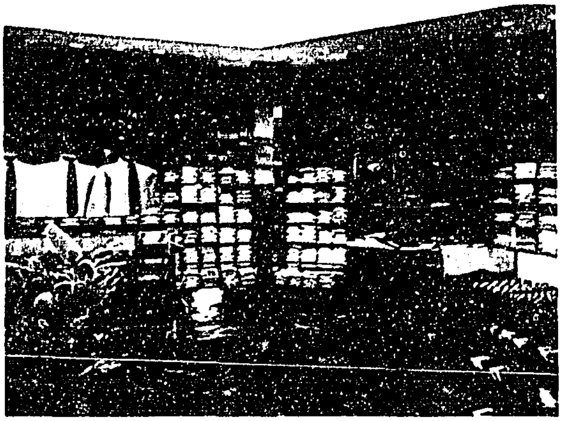
lar move, Walker's of Columbus is now handling the merchandising and operating functions for 10 stores in Ohio. Klopfenstein's in Seattle is responsible for all stores in the Pacific Northwest and Alaska. In addition to economies, formerly smaller store groups are strengthened by becoming part of the stronger merchandising and management teams. We now operate 33 store groups, down from 44 in

Sportswear statement

1979.

With regionalization, management information systems are updated to provide all stores and headquarters with more and timely information to boost sales, speed inventory turnover, improve earnings, and serve our customers better.

At this time, 14 new stores are planned for 1982 and emphasis will also be placed on re-



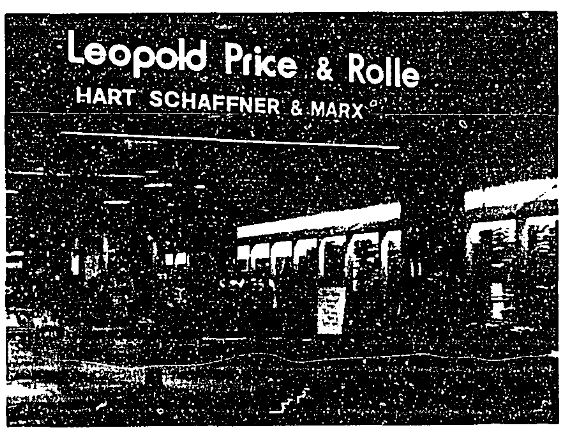
Rich environment enhances merchandise

modeling. We are continuing to build contemporary stores with a relaxed atmosphere, open fronts and colorful displays with antiques and plants. Our customers are responding well to these efforts to create an enjoyable shopping experience.

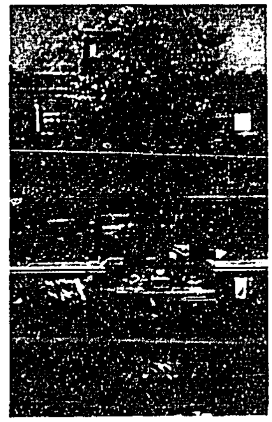
In the retailing environment of the 1980's, we are confident our stores are in an enviable position to serve increasing numbers of

Newest location of exclusive ladies' store

affluent customers. Management training, sales training and more incentives for superior performance are attracting and keeping qualified people. Our powerful brand names provide our customers with assurance of top quality and good value. We are confident of our ability to continue to be the leading group of fine speciality stores for men and women.



Growing with the Sunbelt



Enticing display

Simply sophisticated

In Thousands Years ended November 30	**1981**	1980	1979	
Consolidated Statement of Earnings	**$815,560**	$674,888	$630,751	Net sales
	10,011	7,875	8,572	Finance charges and other income
	1,806	3,015	2,497	Interest income
	2,038	1,252	1,017	Equity in earnings of non-consolidated affiliate
	829,415	687,030	642,837	
	505,304	412,685	388,439	Cost of goods sold
	264,015	226,563	209,048	Selling, administrative and occupancy expenses
	9,323	5,522	5,110	Interest
	778,642	644,770	602,597	
	50,773	42,260	40,240	Earnings before taxes
	23,363	19,735	19,225	Taxes on earnings
	$ 27,410	$ 22,525	$ 21,015	Net earnings for the year
	$ 3.16	$ 2.63	$ 2.45	Net earnings per common share and common share equivalent
	8,670	8,561	8,577	Average number of common shares and common share equivalents

Consolidated Statement of Shareholders' Equity

Par value of Preferred Stock	Par value of Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Shares	
$ 82	$ 21,705	$ 23,578	$157,646	$ —	$ (3,510)	Balance at November 30, 1978
			21,015			Net earnings for the year
						Cash dividends paid:
			(164)			Preferred shares, $2.00 per share
			(7,398)			Common shares, $.88 per share
	177	507				Stock options exercised (70,625 shares)
					(1,064)	Acquisition of 86, 604 treasury shares (net of disposition of 996 shares)
82	21,882	24,085	171,099	—	(4,574)	Balance at November 30, 1979
			22,525			Net earnings for the year
						Cash dividends paid:
			(164)			Preferred shares, $2.00 per share
			(8,140)			Common shares, $.97 per share
	169	488				Stock options exercised (67,625 shares)
					(640)	Acquisition of 58,805 treasury shares (net of disposition of 995 shares)
82	22,051	24,573	185,320	—	(5,214)	Balance at November 30, 1980
			27,410			Net earnings for the year
						Cash dividends paid:
			(125)			Preferred shares, $2.00 per share
			(9,284)			Common shares, $1 09 per share
	223	517				Stock options exercised (156,099 shares exercised less 66,946 shares exchanged)
(36)	162	(126)				Conversion of 35,882 preferred shares into 64,584 common shares
		71			169	Disposition of 13,332 treasury shares
				(328)		Foreign currency translation adjustment
$ 46	$ 22,436	$ 25,035	$203,321	$ (328)	$ (5,045)	Balance at November 30, 1981

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheet
Hart Schaffner & Marx and Subsidiary Companies

In Thousands/November 30	1981	1980	
Assets			
Current Assets	**$ 5,970**	$ 6,884	Cash
	2,190	7,000	Short term investments, at cost which approximates market
	150,807	124,618	Accounts receivable, less allowance of $7,758,000 and $6,377,000 for doubtful accounts
	204,953	186,061	Inventories
	1,918	2,269	Prepaid expenses
	365,838	326,832	**Total current assets**
Investments and Other Assets	**11,613**	11,947	
Properties	**2,951**	2,861	Land
	32,869	23,691	Buildings and building equipment
	98,174	83,934	Furniture, fixtures and equipment
	60,865	51,420	Leasehold improvements
	194,859	161,906	
	(107,436)	(98,450)	Accumulated depreciation and amortization
	87,423	63,456	**Net properties**
Total Assets	**$464,874**	$402,235	

	1981	1980	
Liabilities and Shareholders' Equity			
Current Liabilities	**$ 35,000**	$ 24,000	Notes payable to banks
	2,445	910	Current maturities of long term debt
	52,261	49,004	Accounts payable
	23,322	16,609	Accrued payrolls
	30,523	19,809	Other accrued expenses
	4,412	3,740	Taxes on earnings
	9,200	7,695	Deferred taxes on earnings
	157,163	121,767	**Total current liabilities**
Long Term Debt	**62,246**	53,656	Long term debt, less current maturities
Shareholders' Equity	**46**	82	Convertible preferred shares, $1 par value; authorized 2,500,000; issued and outstanding, Series A, 46,024 in 1981 and 81,906 in 1980
	22,436	22,051	Common shares, $2.50 par value; authorized 25,000,000; issued 8,974,265 in 1981 and 8,820,528 in 1980
	25,035	24,573	Capital surplus
	203,321	185,320	Retained earnings
	(328)	—	Foreign currency translation adjustment
	250,510	232,026	
	(5,045)	(5,214)	Common shares in treasury, at cost, 396,740 in 1981 and 410,072 in 1980
	245,465	226,812	**Shareholders' equity**
Total Liabilities and Shareholders' Equity	**$464,874**	$402,235	

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position
Hart Schaffner & Marx and Subsidiary Companies

In Thousands/Years ended November 30	1981	1980	1979	
Working Capital was Provided by:	**$ 27,410**	$ 22,525	$ 21,015	Net earnings for the year
	11,875	9,673	9,129	Depreciation and amortization
	(2,038)	(1,252)	(1,017)	Equity in earnings of non-consolidated affiliate
	37,247	30,946	29,127	Working capital provided by operations
	11,900	450		Proceeds from issuance of industrial revenue bonds
	740	657	684	Net proceeds from exercise of stock options
			1,552	Obligations under capital leases
	49,887	32,053	31,363	
Working Capital was Used for:	**32,041**	14,656	12,437	Property additions—net
	9,409	8,304	7,562	Payment of dividends
	4,130	1,015	1,054	Reduction of long term debt
	(2,132)	(514)	6,117	Increase (decrease) in investments and other assets
	(169)	640	1,064	Changes in treasury stock—net
	2,998			Properties and other assets of acquired company, net of $820,000 long term debt assumed
	46,277	24,101	28,234	
Increase in Working Capital	**$ 3,610**	$ 7,952	$ 3,129	
Changes in Components of Working Capital:	**$ (914)**	$ 6,477	$ (439)	Cash
	(4,810)	1,800	(1,800)	Short term investments
	26,189	15,534	3,684	Accounts receivable
	18,892	21,616	89	Inventories
	(351)	550	(59)	Prepaid expenses
	(11,000)	(22,010)	10	Notes payable to banks
	(1,535)	(29)	3,950	Current maturities of long term debt
	(3,257)	(11,130)	1,257	Accounts payable
	(6,713)	(189)	204	Accrued payrolls
	(10,714)	(3,298)	(2,517)	Other accrued expenses
	(672)	(149)	(235)	Taxes on earnings
	(1,505)	(1,220)	(1,015)	Deferred taxes on earnings
Increase in Working Capital	**$ 3,610**	$ 7,952	$ 3,129	

(See accompanying notes to consolidated financial statements)

Report of Independent Accountants

To the Shareholders and Board of Directors of Hart Schaffner & Marx

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of shareholders' equity and of changes in financial position present fairly the financial position of Hart Schaffner & Marx and its subsidiaries at November 30, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Chicago, Illinois
January 14, 1982

Price Waterhouse

The consolidated financial statements include the accounts of the Company and all subsidiaries. The Company's 49% equity in Robert's S.A. de C.V., a publicly traded corporation in Mexico, is included in "Investments and Other Assets". In accordance with Statement of Financial Accounting Standards #52, beginning in 1981 the effects of foreign currency translation have been charged directly to a separate component of shareholders' equity. The effect of this change is not material to any one quarter.

Inventories are stated at the lower of cost or market. Cost is determined by the use of the last-in, first-out (LIFO) method for a substantial portion of the manufacturing and retail store inventories. For the remaining inventories, the first-in, first-out (FIFO) method is used for manufacturing and the retail method is used for retail stores.

Properties are stated at cost. Additions, major renewals and betterments are capitalized; maintenance and repairs which do not extend asset lives are charged against earnings. Profit or loss on disposition of assets is reflected in earnings and the related asset costs and accumulated depreciation are removed from the respective accounts.

Accelerated depreciation methods are used for a significant portion of the properties and the straight line method is used for the remainder. Depreciation is computed based on useful lives of 20 to 45 years for buildings, 5 to 20 years for building equipment and 3 to 15 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the terms of the respective leases.

Intangible assets are included in "Investments and Other Assets" at cost, less amortization which is provided on a straight-line basis over their economic lives, usually 10 years or less.

Deferred taxes on earnings are provided for timing differences between financial and taxable income. Investment tax credits are recognized as a reduction of the current provision for taxes on earnings in the year the related assets are placed in service.

The Company and its subsidiaries maintain pension plans covering substantially all employees other than those covered by multi-employer plans. Pension expense charged against earnings includes current service costs and, as to plans not fully funded, amortization of prior service costs over periods ranging from ten to thirty years. Pension expense under each multi-employer plan is based upon a percentage of the employer's union payroll established by industry-wide collective bargaining agreements. Pension expenses are funded as accrued.

When stock options are exercised, common stock is credited for the par value of shares issued and capital surplus is credited with the proceeds in excess of par. For stock appreciation rights, compensation expense is recognized on the aggregate difference between the market price of the Company's stock and the option price.

Earnings per share are computed based on the average number of common shares and common share equivalents outstanding. Convertible preferred shares have been included as common share equivalents. When dilutive, stock options are included as share equivalents using the treasury stock method.

On January 7, 1981, the Company purchased an 80% interest in Country Miss, Inc., a manufacturer of women's diversified apparel, in a cash transaction totaling approximately $12 million. Assuming the acquisition had been effective at the beginning of the Company's 1980 fiscal year, consolidated sales, net earnings and net earnings per share for 1980 would have been approximately $716 million, $23.5 million and $2.75, respectively, on a pro forma basis reflecting assumed interest expense for the investment.

The Company is obligated to purchase the minority interest as of September 30, 1985 for the net book value at that date. Under certain circumstances, the Company may elect or be required earlier to purchase all or a portion of the minority interest, at net book value.

At November 30, 1981 and 1980 inventories were as follows (000's omitted):

1981	1980	
$ 34,922	$ 30,880	Raw materials
19,767	17,616	Work in process
150,264	137,565	Finished goods
$204,953	$186,061	

The excess of current costs over LIFO costs for certain inventories was $14 million at November 30, 1981 and $11 million at November 30, 1980.

The following summarizes information concerning notes payable to banks (000's omitted):

1981	1980	1979	
$ 35,000	$ 24,000	$ 1,990	Outstanding at November 30
51,500	25,000	9,000	Maximum month end balance during the year
22,800	5,800	1,675	Average amount outstanding during the year
17.5%	12.2%	13.1%	Weighted daily average interest rate during the year
13.5%	17.5%	12.4%	Weighted average interest rate on borrowings at November 30

At November 30, 1981, the Company's lines of credit were $59 million of which $24 million was unused; average compensating balances on these lines, generally satisfied by "float", aggregated $1.7 million. These informal lines are cancellable at either party's option and provide for borrowings at the prime lending rate or at other short term rates offered from time to time.

At November 30, 1981 and 1980, long term debt, less current maturities, comprises the following (000's omitted):

1981	1980	
$ 22,614	$ 24,322	8½% sinking fund debentures (due 1996)
23,600	25,000	9¼% promissory notes (due 1991)
13,164	1,190	Industrial revenue development bonds
1,560	1,714	Other debt, extending to 1989 (average interest rate of 6.2%)
60,938	52,226	
1,308	1,430	Obligations under capital leases
$ 62,246	$ 53,656	

The 8½% sinking fund debentures, originally $35,000,000, have been reduced by purchases which are being applied to sinking fund requirements of $1,750,000 annually; $8,750,000 was applied to 1978 through 1982, and $3,636,000 is available for future use.

The 9¼% promissory notes require annual payments of $1,400,000 on December 1, 1981, 1982 and 1983 and $2,600,000 annually each December 1 thereafter. The Company may make optional prepayments up to $7,500,000 without premium, in amounts equal to and at the dates of the required payments, and additional prepayments, subject to certain restrictions prior to November 1, 1985, of all or any portion of the notes at varying premiums.

The industrial revenue development bonds, which mature on varying dates from January, 1983 through November, 1997 were issued by development authorities for the purchase or construction of various manufacturing or retail facilities. The bond proceeds were used for various properties, which have a carrying value at November 30, 1981 of $13,800,000 and at completion will aggregate approximately $15,800,000. Interest rates on the various borrowing agreements range from ⅞ of 1% to sixty-five percent of prime, or 10.5% at November 30,1981.

Other long term debt includes instalment notes and mortgages with interest rates ranging from 3½% to 11% per annum. The approximate principal requirements of long term debt during the next five years, including payments on the 9¼% notes and various industrial revenue bonds, are as follows: $2,324,000 in 1982; $2,420,000 in 1983; $1,774,000 in 1984; $3,095,000 in 1985; $3,086,000 in 1986.

Under the most restrictive provisions of the Company's borrowing agreements, the Company may incur total funded debt up to approximately the amount of shareholders' equity. At November 30, 1981 senior funded debt was limited to approximately $218 million. In addition, at November 30, 1981 consolidated working capital was $209 million compared to $157 million required to be maintained by the Company. Consolidated retained earnings of $63,100,000 at November 30, 1981 plus 80% of earnings thereafter are available for the payment of future cash dividends.

The Company and its subsidiaries operate principally in leased facilities. Almost one-half of the leases contain renewal options ranging from 5 to 25 years. Over 90 percent of all leases provide for payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs; such executory costs are substantial in proportion to minimum rentals. Contingent rental payments are generally based on the sales volume of the rental unit.

Leased property under capital leases is included in "Properties" on the balance sheet and at November 30, 1981 and 1980 comprises the following (000's omitted):

1981	1980	
$ 138	$ 138	Land
4,536	4,536	Buildings
4,674	4,674	
3,245	3,124	Less: Accumulated depreciation
$ 1,429	$ 1,550	

At November 30, 1981, total minimum rentals under operating leases and rentals applicable to capital leases are as follows (000's omitted):

Capital Leases	**Operating Leases**	**Years**
$ 379	$ 18,215	1982
379	17,428	1983
379	16,370	1984
379	15,513	1985
379	14,664	1986
2,650	83,045	Thereafter
4,545	**$165,235**	Total minimum due
(2,159)		Executory costs
(957)		Amounts representing interest
1,429		Present value of minimum lease payments
(121)		Current capital lease obligations
$ 1,308		Long term capital lease obligations

Minimum future sublease rentals receivable under capital leases and operating leases at November 30, 1981 amounted to $1.0 million and $3.7 million, respectively. Rental expense on operating leases, including rentals under short term leases, comprises the following (000's omitted):

1981	1980	1979	
$ 20,177	$ 16,472	$ 15,352	Minimum rentals
6,431	6,069	5,683	Contingent rentals
(1,377)	(1,122)	(1,015)	Sublease income
$ 25,231	$ 21,419	$ 20,020	**Total rental expense**

The provision for taxes on earnings is summarized as follows (000's omitted):

1981	1980	1979	
$ 18,298	$ 15,900	$ 15,715	Federal
3,560	2,615	2,495	State and local
21,858	18,515	18,210	**Total current**
1,260	1,050	875	Federal
245	170	140	State and local
1,505	1,220	1,015	**Total deferred**
$ 23,363	$ 19,735	$ 19,225	**Total taxes on earnings**

The individual items comprising the deferred tax provision in each of the above years were not material.

The difference between taxes on earnings reflected in the accompanying statement of earnings and the amount computed by applying the federal statutory tax rate to pre-tax earnings is summarized as follows:

Percent of Pre-Tax Earnings

1981	1980	1979	
46.0%	46.0%	46.2%	Taxes computed at statutory rate
4.1	3.6	3.5	State and local taxes on earnings, net of federal tax benefit
(2.5)	(2.0)	(1.6)	Investment tax credit ($1,270,000 in 1981, $850,000 in 1980 and $600,000 in 1979.)
(1.6)	(.9)	(.3)	Other—net
46.0%	46.7%	47.8%	Effective tax rate

The Company has stock option plans under which officers and key employees may be granted options to purchase the Company's common stock at prices equal to the fair market value at date of grant. Options under all plans approved by the shareholders before 1980 are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five to ten years after date of grant. Options under the 1980 Stock Option Plan may be exercisable as to all or any portion of the shares granted at any time during the period beginning one year after the date of grant, if the participant has been employed by the Company for at least five years, and expire on April 7, 1990.

The 1980 Plan also provides for the discretionary grant of stock appreciation rights in conjunction with the option. This allows the holder to receive a combination of shares of stock and a cash payment, which together equal the gain in market price from date of grant to the date of exercise. However, the maximum cash payment permitted is one-half of the gain in market price. Under the Plan, when options and appreciation rights are granted in tandem, the exercise of one cancels the other.

Options outstanding at November 30, 1981 included 69,950 granted in tandem with stock appreciation rights. Options for 100,481 shares were exercisable at November 30, 1981 at prices ranging from $9.75 to $13.63. At November 30, 1981, 83,575 shares were available for grant (193,300 shares at November 30, 1980) and 326,609 shares were reserved for options granted or to be granted.

Information regarding options outstanding at November 30, 1981 and those which became exercisable and were exercised during 1981, 1980, and 1979 is as follows:

A summary of the plans for the three years ended November 30, 1981 is as follows:

Number of Shares	Appreciation Rights	Option Price	
393,308		$6 to $14	Under option, November 30, 1978
250		$12	Granted
(70,625)		$6 to $12	Exercised
(41,075)		$8 to $14	Expired or terminated
281,858		$6 to $14	Under option, November 30, 1979
87,700	30,850	$10	Granted
(67,625)		$6 to $12	Exercised
(11,675)		$8 to $14	Expired or terminated
290,258	30,850	$10 to $14	Under option, November 30, 1980
119,100	41,250	$14 to $22	Granted
(156,099)	(1,650)	$10 to $14	Exercised
(10,225)	(500)	$10 to $14	Expired or terminated
243,034	69,950	$10 to $22	Under option, November 30, 1981

Options outstanding at November 30, 1981

Year of grant	1981	1980	1979	1978	1977	1976	1975	**Total**
Shares	119,100	77,200	250	26,959	13,650	2,000	3,875	**243,034**
Option price (weighted average per share)	$ 18.21	$10.13	$12.07	$12.32	$13.54	$13.57	$ 9.75	**$ 14.55**
Fair value at date of grant (000's omitted)	$ 2,168	$ 782	$ 3	$ 332	$ 185	$ 27	$ 38	**$ 3,535**

	Shares	Option price Per share	Total (000's omitted)	Fair value at date options became exercisable/were exercised Per share	Total (000's omitted)
Options which became exercisable:					
1981	**109,202**	**$10.98**	**$1,200**	**$18.00**	**$1,966**
1980	49,533	$ 13.04	$ 646	$ 11.18	$ 554
1979	73,445	$ 11.97	$ 879	$ 12.78	$ 939
Options exercised:					
1981	**156,099**	**$12.98**	**$2,027**	**$19.28**	**$3,010**
1980	67,625	$ 9.73	$ 657	$ 12.48	$ 844
1979	70,625	$ 9.69	$ 684	$ 12.24	$ 865

Series A preferred shares are voting shares, each convertible into 1.8 common, and are cumulative with an annual $2 dividend rate. The shares are callable at a liquidation price of $67.50 each (an aggregate of $3,107,000 at November 30, 1981) and 82,843 common shares are reserved for conversion. During 1981, 35,882 preferred shares were converted into 64,584 common shares.

The Company participates with other companies in the apparel industry in making collectively-bargained contributions to pension funds covering most of its union employees. The present contribution rate for the principal plan is 8.3% of applicable payroll and is based on the actuarially recommended amount necessary to fund the costs of the benefits.

The principal Company-sponsored plan has required contributions by the employees, and another plan permits voluntary employee contributions. Beginning January 1, 1982 the mandatory contributions by employees will be gradually reduced. Except for several deferred profit sharing plans of subsidiaries, all employer contributions are based on actuarial determinations.

Total pension costs for the years ended November 30, 1981, 1980 and 1979 were approximately $12 million, $11 million and $9 million, respectively, including contributions to multi-employer plans. The increase in pension costs in 1981 reflects higher payroll and contribution rates under multi-employer pension plans and the addition of costs for Country Miss, partly offset by decreased costs for Company-sponsored plans due to revised actuarial assumptions as to interest and future salaries. The increase in pension costs for 1980 reflects higher payroll and contribution rates under the multi-employer plans and 1980 amendments to the principal Company-sponsored plan improving the plan's benefit formula.

A comparison of accumulated plan benefits and plan net assets for the Company-sponsored defined benefit plans at January 1, 1981 and 1980 is presented below (000's omitted):

1981	1980	
		Actuarial present value of accumulated plan benefits:
$ 27,000	$ 29,800	Vested
2,000	1,900	Nonvested
$ 29,000	$ 31,700	
$ 47,700	$ 37,200	Net assets available for benefits

The weighted average assumed rates of return used in determining the actuarial present value of accumulated plan benefits were 6½% in 1981 and 5% in 1980.

The Multi-employer Pension Plan Amendments Act of 1980 has amended ERISA to establish new funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans. Separate actuarial calculations of the Company's position are not available with respect to the multi-employer plans.

The Company is engaged in the business of manufacturing and selling apparel. Approximately 18 % of the Company's men's manufactured products are sold to consumers through its own retail stores, which also sell goods purchased from others. The remaining 82% and a substantial portion of women's manufactured products are sold to other retailers for resale to consumers. No one customer accounts for 2% or more of consolidated sales. Country Miss was acquired in 1981 and its manufacturing and retailing operations are included in the 1981 segment information. Information on the Company's manufacturing and retailing operations for the years ended November 30, 1981, 1980 and 1979 is summarized as follows (in millions):

	Manufacturing			Retailing			Adjustments			Consolidated		
	1981	1980	1979	**1981**	1980	1979	**1981**	1980	1979	**1981**	1980	1979
Sales to unaffiliated customers	**$373.8**	$271.2	$237.8	**$441.8**	$403.7	$393.0	**$**	$	$	**$815.6**	$674.9	$630.8
Earnings before taxes	**45.7**	30.3	27.7	**23.9**	23.2	22.2	**(18.8)**	(11.2)	(9.7)	**50.8**	42.3	40.2
Gross assets at year end	**240.5**	196.8	171.2	**230.6**	203.6	185.9	**(6.2)**	1.8	(6.6)	**464.9**	402.2	350.5
Depreciation and amortization	**4.3**	3.7	3.6	**7.5**	6.0	5.5	**.1**			**11.9**	9.7	9.1
Property additions—net	**14.2**	2.8	4.9	**16.6**	11.9	7.5	**1.2**			**32.0**	14.7	12.4

Adjustments of gross assets are for corporate cash, net properties, investments and other assets, less intercompany profit in inventory and intercompany receivables.

Adjustments of depreciation and amortization and net property additions are for the corporate space in the new headquarters building.

Shipments of approximately $76 million in 1981, $62 million in 1980 and $60 million in 1979 to the Company's retail stores (at the same prices as similar items sold to unaffiliated retailers) are excluded from manufacturing sales, although profit on these products is included in manufacturing earnings. Adjustments from earnings before taxes are for:

	1981	1980	1979
Interest expense (net of interest income)	**$ (7.5)**	$ (2.5)	$ (2.6)
General corporate expenses and intercompany profit elimination	**(13.3)**	(10.0)	(8.1)
Equity in earnings of non-consolidated affiliate	**2.0**	1.3	1.0
	$(18.8)	$(11.2)	$ (9.7)

Quarterly Financial and Common Share Information

Quarters (Not separately audited)	**Net Sales** (000's omitted) **1981**	1980	1979	**Gross Profit** (000's omitted) **1981**	1980	1979	**Net Earnings** (000's omitted) **1981**	1980	1979
First	**$206,831**	$184,567	$171,323	**$ 78,318**	$ 69,664	$ 64,496	**$ 8,360**	$ 7,725	$ 6,805
Second	**185,133**	143,314	138,571	**71,683**	60,075	55,954	**5,445**	4,500	4,365
Third	**202,789**	161,271	149,812	**73,665**	58,937	54,776	**5,245**	3,865	3,670
Fourth	**220,807**	185,736	171,045	**86,590**	74,301	67,086	**8,360**	6,435	6,175
Total	**$815,560**	$674,888	$630,751	**$310,256**	$262,977	$242,312	**$ 27,410**	$ 22,525	$ 21,015

Quarters (Not separately audited)	**Net Earnings** Per Share **1981**	1980	1979	**Cash Dividends** Per Share **1981**	1980	1979
First	**$ .97**	$ .90	$ .79	**$ .25**	$ .22	$ .22
Second	**.63**	.53	.51	**.28**	.25	.22
Third	**.60**	.45	.43	**.28**	.25	.22
Fourth	**.96**	.75	.72	**.28**	.25	.22
Total	**$ 3.16**	$ 2.63	$ 2.45	**$ 1.09**	$ .97	$ .88

Selected Financial Data

In Thousands/For Years Ended November 30	**1981**	1980	1979	1978	1977
Net sales	**$815,560**	$674,888	$630,751	$606,610	$567,986
Net earnings	**27,410**	22,525	21,015	18,005	15,505
Net earnings per common share and equivalent	**3.16**	2.63	2.45	2.09	1.80
Cash dividends per share	**1.09**	.97	.88	80	.72
Average number of common shares and equivalents	**8,670**	8,561	8,577	8,601	8,601

In Thousands/At November 30					
Accounts receivable	**$150,807**	$124,618	$109,084	$105,400	$102,889
Inventories	**204,953**	186,061	164,445	164,356	159,238
Net properties	**87,423**	63,456	58,473	55,165	57,749
Total assets	**464,874**	402,235	350,537	338,620	340,554
Working capital	**208,675**	205,065	197,113	193,984	188,292
Long term debt	**62,246**	53,656	54,221	53,723	61,807
Shareholders' equity	**245,465**	226,812	212,574	199,501	188,342
Equity per share	**28.34**	26.50	24.87	23.30	22.00

Hart Schaffner & Marx common shares are traded under the symbol HSM on the New York and Midwest Stock Exchanges. The quarterly composite price range for the past three years was:

	Fiscal 1981				Fiscal 1980				Fiscal 1979			
	Fourth	**Third**	**Second**	**First**	Fourth	Third	Second	First	Fourth	Third	Second	First
High	**$22⅞**	**$24⅛**	**$20⅝**	**$18⅜**	$16	$14⅞	$12	$12⅞	$13⅜	$13½	$13¼	$15⅜
Low	**17⅛**	**20**	**17⅛**	**13½**	13¼	11½	9¾	11⅛	10	11⅜	11⅛	10½

Series A cumulative preferred shares, on which quarterly $.50 cash dividends were paid in 1981, 1980 and 1979, while not separately traded, are convertible into 1.8 common shares.

Financial statements presented in accordance with generally accepted accounting principles traditionally report amounts based on historical costs, without attempting to measure the effects of changing prices on business enterprises. Financial Accounting Standards Board Statement 33, "Financial Reporting and Changing Prices", requires presentation of supplemental financial data adjusted for both general price level changes (Constant Dollar) and changes in specific prices (Current Cost). This is deemed experimental and data should be read with caution.

Both Current Cost and Constant Dollar accounting use the same depreciation rates and methods used in the financial statements, after adjustments for inflation since the dates of purchase. Both methods state amounts in average dollars of purchasing power for the last fiscal year; neither method recognizes "holding gains" from the increased values of properties. Current Cost of year-end inventories was determined using the FIFO method. Since the Company uses the LIFO inventory method in its financial statements, historical cost of goods sold approximates that determined under Current Cost.

Current Cost of properties and related depreciation were developed using appropriate indices, appraisals and management estimates of the cost of replacing existing properties with identical units. This concept disregards replacement with more productive equipment. Historical depreciation is significantly less than inflation-adjusted depreciation even though over 50% of the properties' book value was added in the last five years.

The gain in the purchasing power of monetary items results from the difference between the net liability when incurred, and when expressed in today's dollars which have less purchasing power, but this represents neither a realized gain nor available funds.

The data also show that Current Cost of inventory and property (principally property) increased in 1981 at a rate higher than general inflation. Inflation adjustments to cost of goods sold and depreciation reduce earnings before tax, but no adjustment to taxes on earnings is permitted. Raising the 46% historical effective tax rate to 80% on a Constant Dollar basis and 61% under Current Cost shows how taxes reduce the amount of earnings retainable to finance future growth.

The five year Comparison of Inflation-Adjusted Financial Data is expressed in average 1981 dollars. Inflation-adjusted earnings are shown to be notably lower than earnings on a historical basis, while 1981 historical net asset costs of $245.5 million would be $324.8 million at Current Costs.

Inflation accounting requires the use of the Consumer Price Index for All Urban Consumers—All Items (CPI-U All Items) as the measure of general inflation. However, the Company believes the CPI-U apparel indices represent a better measure of inflation in its product costs and sales prices; these indices increased 5.5% for men's and 1.6% for women's apparel in fiscal 1981, when the CPI-U All Items increased 10.6%. Using the CPI-U All Items for the inflation adjustment, sales declined during the five years (except for 1981) but sales showed a five-year annual compounded growth rate of 6%, using the apparel indices, or approximately 9.5% annual growth on a historical basis.

Statement of Income Adjusted for Changing Prices (unaudited)

In Average 1981 Dollars In Millions	As Reported in the Financial Statements	Adjusted for Constant Dollars	Adjusted for Current Costs	
	$815.6	$815.6	$815.6	Net sales
				Operating expenses, excluding depreciation:
	502.4	515.0	505.9	Cost of goods sold
	255.0	255.0	255.0	Selling, administrative and occupancy expenses
	11.9	20.7	20.8	Depreciation expense
	9.3	9.3	9.3	Interest expense
	(13.8)	(13.8)	(13.8)	Interest, other income and equity in earnings of affiliate
	764.8	786.2	777.2	
	50.8	29.4	38.4	Earnings before taxes
	23.4	23.4	23.4	Taxes on earnings
	$ 27.4	$ 6.0	$ 15.0	Net earnings for the year
	46.0%	79.5%	61.0%	Effective tax rate
		$ 4.3	$ 4.3	Gain in purchasing power of net monetary liabilities
			$ 33.7	Effect of increase in specific prices (current costs) on inventories and properties held during the year
			32.3	Increase in general price level
			$ 1.4	Excess of increase in specific prices of inventories and properties over the increase in the general price level

At November 30, 1981, the current cost of Inventories and Properties was $219.0 million and $164.6 million, respectively.

Comparison of Inflation-Adjusted Financial Data (unaudited)

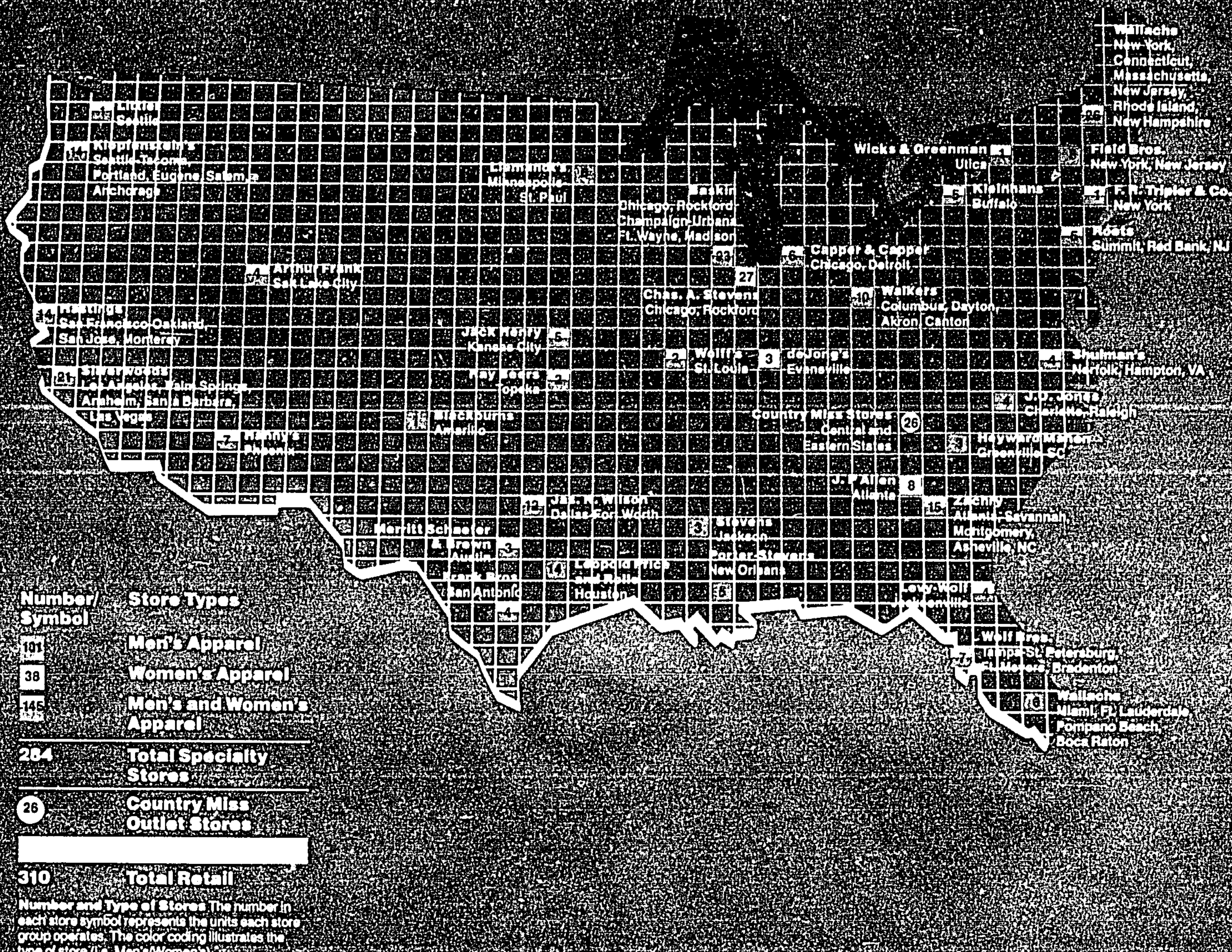
Amounts Stated in Millions except Per Share Amounts

	1981	1980	1979	1978	1977
Net sales:					
As reported	**$815.6**	$674.9	$630.8	$606.6	$568.0
In constant dollars	**815.6**	746.7	792.6	845.5	850.4
Net earnings:					
As reported	**27.4**	22.5	21.0	18.0	15.5
In constant dollars	**6.0**	1.9			
In current costs	**15.0**	12.0			
Net earnings per share:					
As reported	**3.16**	2.63	2.45	2.09	1.80
In constant dollars	**.70**	.23			
In current costs	**1.73**	1.40			
Net assets at year end:					
As reported	**245.5**	226.8	212.6	199.5	188.3
In constant dollars	**355.1**	341.5			
In current costs	**324.8**	309.1			
Cash dividends per common share:					
At historical cost	**1.09**	.97	.88	.80	.72
In constant dollars	**1.09**	1.07	1.11	1.12	1.08
Market price per common share at year end:					
At historical cost	**21¼**	14	11¾	10⅝	11⅞
In constant dollars	**21¼**	15½	14¾	14¾	17¾
Increase in general price level over (under) increase in specific prices of inventories and properties	**(1.4)**	21.8			
Purchasing power gain	**4.3**	3.8			
Average Consumer Price Index	**270.4**	244.4	215.2	194.0	180.6

Men's Suits, By Style, By Retail Price

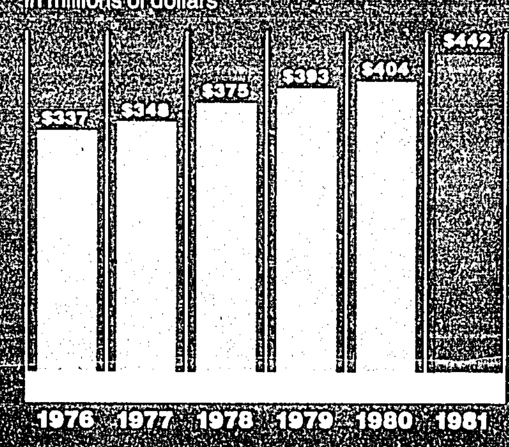
Retail Prices	Contemporary	Designer/Personality	Traditional	Forward Fashion
$400+	Hickey-Freeman		Walter-Morton	Chester Barrie
$300 to $400	Hart Schaffner & Marx	Christian Dior Jack Nicklaus	Graham & Gunn Sterling & Hunt	Society Brand
$225 to $300	Austin Reed of Regent Street	Pierre Cardin	Cesarani	
$175 to $225	Jaymar-Ruby	Nino Cerruti	Allyn St. George	
$125 to $175	Whiteville	Johnny Carson	Robert Surrey	Playboy

Note: Each brand offers a variety of models (styles) in many different fabrics covering a wide price range. The above chart highlights the main focus of each brand and demonstrates the leadership position your company has in a number of market segments.

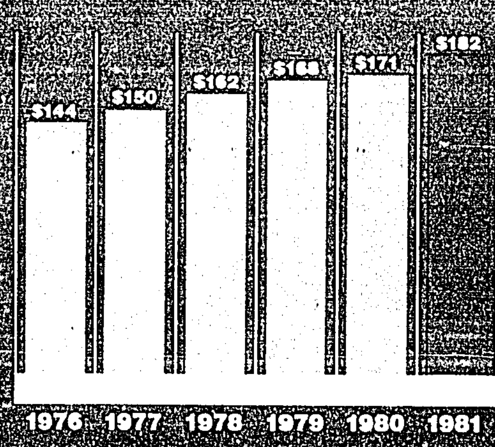


Number and Type of Stores The number in each store symbol represents the units each store group operates. The color coding illustrates the type of store (i.e. Men's/Women's).

Retail Store Sales
in millions of dollars



Sales Per Sq. Ft. of Selling Space



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Chester Barrie
Hickey-Freeman
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Nino Cerruti
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